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THE UNHERALDED TURNAROUND AT SEARS

WHAT STOCKS THE PROS ARE BUYING

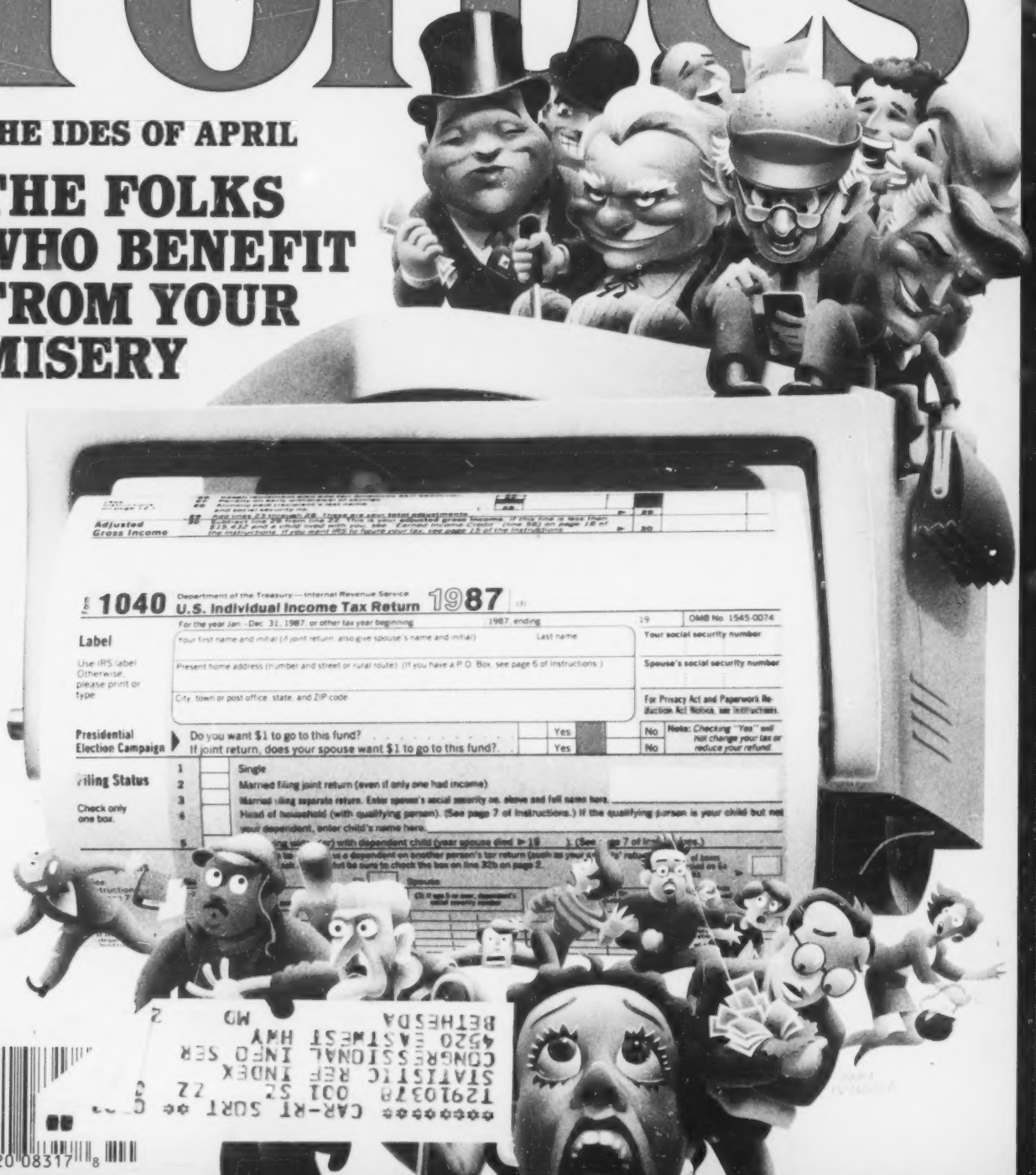
MARCH 7, 1988

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

THE IDES OF APRIL

THE FOLKS WHO BENEFIT FROM YOUR MISERY


Adjusted Gross Income
1040
Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return
1987
For the year Jan.-Dec. 31, 1987, or other tax year beginning 1987, ending 19
OMB No. 1545-0074
Label
Use IRS label. Otherwise, please print or type
Your first name and initial (if joint return, also give spouse's name and initial)
Last name
Your social security number
Present home address (number and street or rural route). (If you have a P.O. Box, see page 6 of instructions.)
Spouse's social security number
City, town or post office, state, and ZIP code
For Privacy Act and Paperwork Reduction Act Notice, see instructions.
Presidential Election Campaign
Do you want $1 to go to this fund?
If joint return, does your spouse want $1 to go to this fund?
Yes
No
Note: Checking "Yes" will not change your tax or reduce your refund.
Filing Status
Check only one box.
1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security no. above and full name here.
4 Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here.
5 Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

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Forbes

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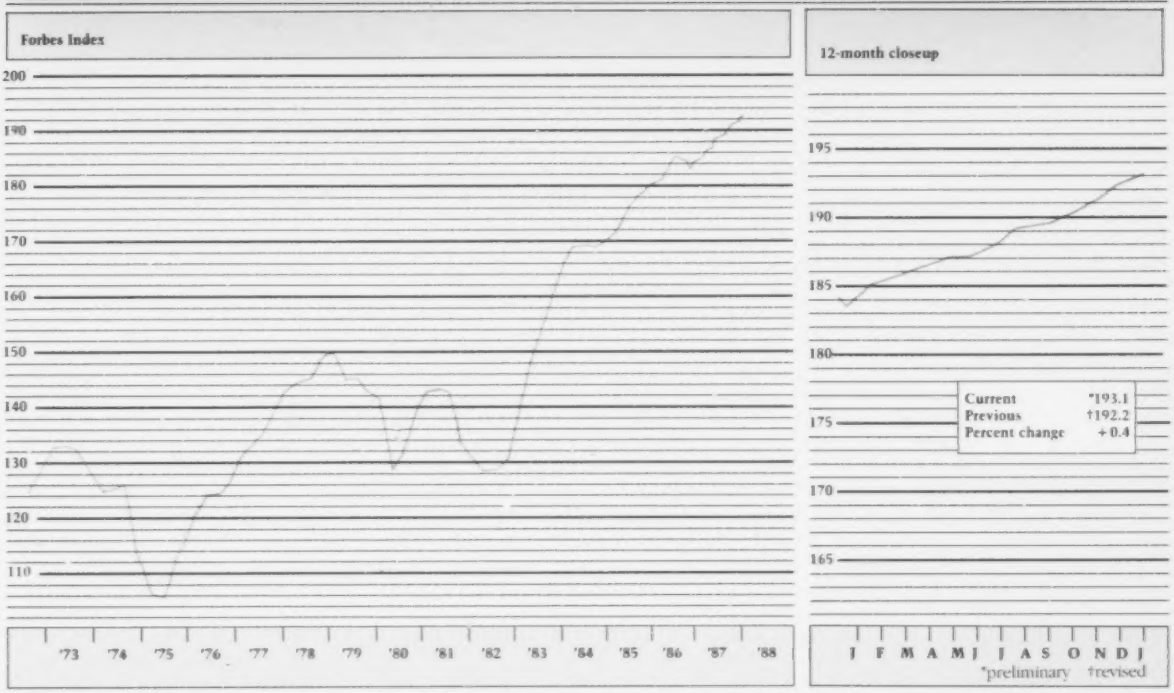
The Forbes Index



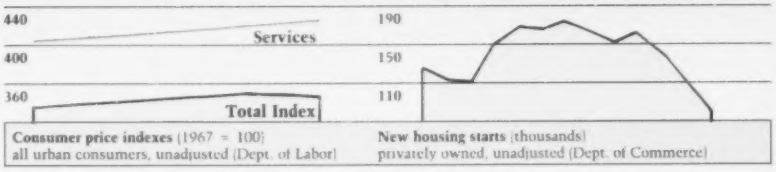
Staying afloat. There was a pleasant surprise from America's stores and shopping malls: Retail sales in January increased 0.5% despite a widely predicted decline. While this component alone doesn't prove the optimists' case, it's an indication that a recession may be further off than has been suggested by the three consecutive down months of the government's leading indicator index. The news from U.S. factories was also encouraging. Manufacturers' new orders rose 1% in December.

Although last year's holiday season was less than spectacular, consumers increased their indebtedness to new levels as consumer installment credit rose 1% in December. On the basis of these early results, the Forbes Index shows a preliminary gain of 0.4% for January.

The Forbes Index Components

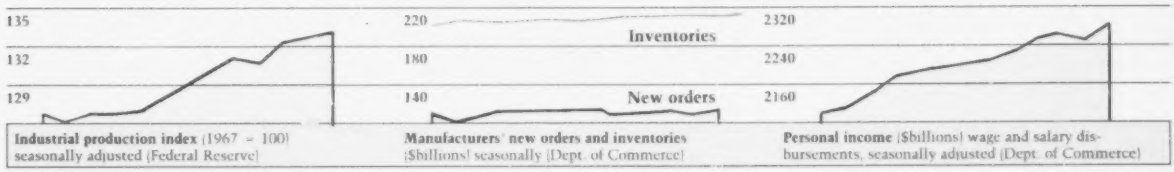
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)

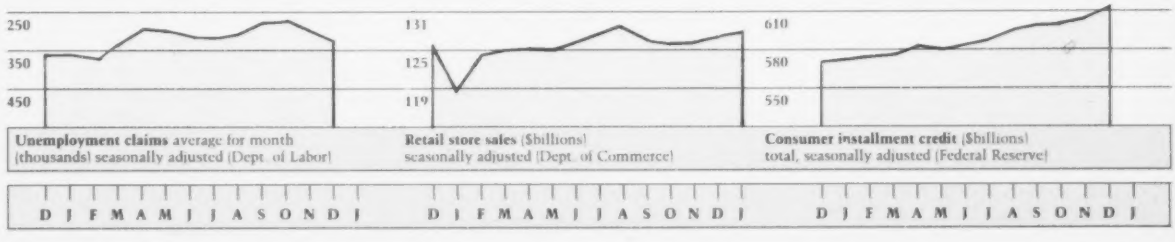
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



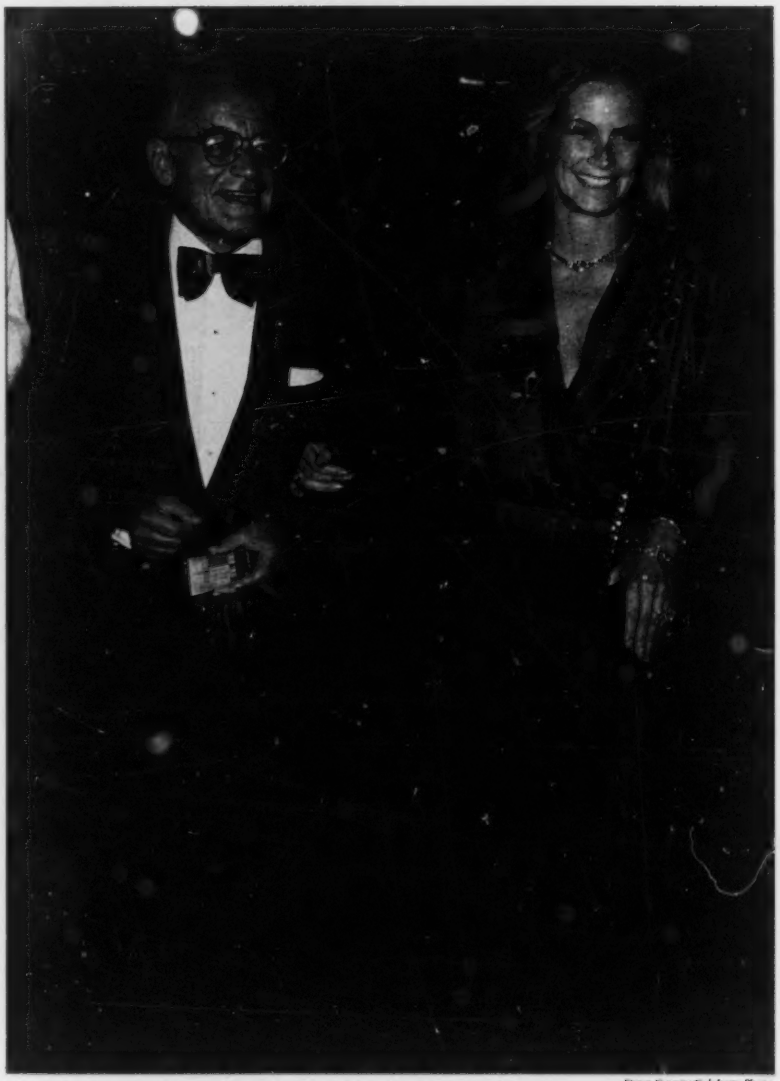
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

Banks and the investing public gave Dino De Laurentiis nearly $200 million to build a film company. The money is gone and the company in ruins, but some of Dino's friends and relatives aren't hurting.

No, thank you, PaineWebber



Steve Granitz/Celebrity Photo

Dino De Laurentiis and companion Martha Schumacher
If the big studios wouldn't finance him, the public would.

By Richard Behar

NOTHING IS MORE EPHEMERAL than success in moviemaking. A few years back Dino De Laurentiis was a hero. There was his 1976 money-spinning remake of *King Kong*, and, over a 46-year career, such other movies as *Serpico* in 1974 and Fellini's *La Strada* in 1956. But then came some momentous flops, particularly *Dune* (1984), a film that cost roughly $50 million and took in just $16.5 million in rentals. Suddenly the big studios were cooling to him.

Enter PaineWebber. If the industry wouldn't finance him, the public would. Before you could say *King Kong Lives* (this one died, in 1986), the brokerage house raised $107 million for De Laurentiis, selling stock, junk bonds and units of a limited partnership. Banks, led by Bank of America, came up with loans amounting to nearly $60 million. An Australian affiliate went public, raising another $19 million (U.S.).

Today the money is gone. De Laurentiis Entertainment Group's working capital is an estimated negative $54 million, and that's counting some very dubious receivables at face value. Film distribution reportedly has been temporarily halted. The company owes $174 million to banks, debenture holders and trade creditors. Its movie library and its studios in North Carolina are for sale, and the proceeds will go to the banks. The stock, which was offered at $12 in 1986, sold recently at 87 cents. The junk bonds go for 13 cents on the dollar.

Here was a concept stock of the classic kind. When the company went public, it had no earnings history. De Laurentiis himself had no record managing such an enterprise: Producing a film and running an entertainment company with a costly distribution network are different things. But the company did have a concept, and that was what PaineWebber raised the money on—the concept and the magic of the De Laurentiis name.

In an October 1986 report, PaineWebber's entertainment analyst Lee Isgur rhapsodized that De Laurentiis had virtually figured out how to take the risk out of moviemaking. Why, you could recover 50% to 60% of production cost by preselling home videocassette rights, another 40% to 50% from foreign distribution rights and 20% to 30% from pay television rights. Before distribution costs, at least, you're ahead of the game even before box office rentals start rolling in. To top it off, the old master (he's now 68) would end-run Hollywood's

Benjamin Porter/Archive

De Laurentiis studio in Wilmington, N.C.
The old master would end-run Hollywood's costly unions.

costly unions with a low-budget studio in North Carolina.

As late as March 1987 PaineWebber reports were promoting the stock at 12⅛, projecting 75 cents to $1.25 a share in earnings for the fiscal year ending Feb. 29, 1988. Actual results: For the first three quarters the company lost $3.78 a share.

"It was worthwhile as originally constructed," argues Isgur. "But we had one disaster after another. And once it became apparent that things weren't working, management froze." In short, the concept was a bust.

Moviemaking is at best a chancy business. Most of the small film producers that went public toward the end of the bull market are in trouble today *(see table)*. But none has burned through as much money in as short a time—without so much as even a near hit—as De Laurentiis. Since the public offering, only one of his 21 releases—*Crimes of the Heart*—has topped $20 million in box-office sales, and that barely covered its total costs.

"The idea of creating a major studio from whole cloth was intoxicating," recalls Gary DeVore, a top De Laurentiis Entertainment executive who jumped ship last year.

"The idea was that with 100% of the production costs covered, it was going to be easy street, a guaranteed profit almost," says Merrill Lynch analyst Harold Vogel about De Laurentiis Entertainment and a similarly troubled Cannon Group. "What they forgot to mention were the growing costs of marketing and distribution—expenses that can exceed the costs of making a film."

Not the least of the problems was De Laurentiis himself. He turned out to be a poor delegator who trusts no one and insists on making even minor corporate decisions. He ran the company as if it had remained private. Until she quit in August, Dino's daughter, Raffaella, 35, was the $400,000 head of production. The firm also has production deals with a son-in-law, a videocassette deal in Spain and Portugal with a second son-in-law, and a distribution deal with a brother in Italy. Dino's pregnant 33-year-old companion, Martha Schumacher, is head of the studios.

Moreover, De Laurentiis Entertainment has a web of deals with several firms controlled by Dino himself. Last year two such affiliates owed De Laurentiis Entertainment $27 million. The company has agreed to settle the debts by taking TV rights to an unspecified group of films valued by "management" at $9 million and based on "anticipated" network license agreements. De Laurentiis will throw in shares in one of his private Italian film firms if those rights add up to less than $9 million. In addition, the TV rights to a miniseries and profits from a group of films that are yet to be made have been valued at $9.5 million by an "independent" appraisal. The company will not release a copy of the appraisal report.

Then there is a promissory note from De Laurentiis for $8.4 million, at 7.5% interest, which is backed by 1 million shares of Dino's De Laurentiis Entertainment stock. But the stock is now worth under $1 million.

Among the firm's assets today is $28 million in trade receivables of questionable collectibility. According to Arthur Murphy, a well-known *Variety* commentator, many exhibitors hold up payment to failing firms in order to renegotiate the contract.

De Laurentiis is no longer talking to reporters. In November he announced that he might resign, but that hasn't happened yet. He even suggested publicly that De Laurentiis Entertainment should change its name—the very thing that gave it so much cachet on Wall Street in the first place.

Who's to blame for the mess? De Laurentiis is in a major way, and so is PaineWebber for pushing such an unproven concept. But a lot of the blame rests on the investors themselves, who were careless enough and naive enough to buy a pig in a poke just because the pig had a famous name attached to it. ■

Pix stox take lix

A rash of Hollywood offerings has left investors with a dose of glamour, but not much in profits. Most of these firms are in the red.

Company	Date public	Initial price	High	Recent
Cannon Group†	Oct 83	20¼	45½	3⅞
De Laurentiis Ent Grp	May 86	12	19¼	⅞
Imagine Films	July 86	8*	19¼*	4½*
Kings Road Entertainment	Sept 85	10	10½	⅞
Mercury Entertainment	Sept 84	6*	12*	4¼*
New Line Cinema	Sept 86	8	13¾	5¼
New Star Entertainment	June 86	2*	5¾*	¾*
New World Entertainment	Oct 85	5	22⅜	3
Vestron	Oct 85	13	15¼	4⅛
Vista Organization Ltd	Aug 84	6¼*	105*	6½*

*Units. †Most recent public offering.

What was rougher on investors than stocks last year? Answer: new issues, where the investing public dropped a cool $3 billion.

And it's still pretty crazy out there

By Richard L. Stern and Charles M. Bartlett Jr.

IT'S NO SURPRISE that the October crash humbled the new-issues market. Only eight new issues at $1 or more per share were sold in January. Issues that came out earlier took a beating. Only 102 of the 574 issues that went public last year at $1 or more were, by year-end, trading above their offering prices, according to FORBES' new-issues database. Those 574 issues raised $13.9 billion, but their total market value at year-end was only $10.8 billion, handing investors a 22.3% decline, compared with a 2.03% gain in the S&P 500.

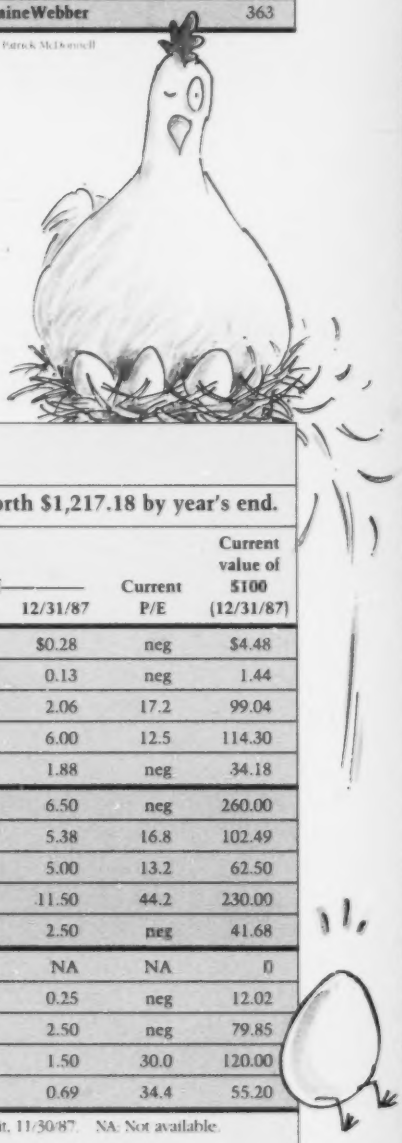
Even before the crash, 1987 shaped up as a mediocre year for new issues. Counting penny stocks, the market raised $14.1 billion in 768 new issues, compared with the 1986 record year, when the market raised $21.8 billion in 929 new issues. (An interesting exception was the strength in new closed-end investment companies. Thirty-four new closed-end mutual funds raised $9.7 billion, compared with 1986's previous record, when 26 closed-ends raised $4 billion. But this, too, was before the crash.)

Biggest IPO underwriters

Here are the top investment banker money raisers (based on their roles as the lead underwriters).

Rank	Underwriter	Money raised (mil)
1	Goldman, Sachs	$2,430
2	Shearson Lehman	1,410
3	Drexel Burnham Lambert	1,250
4	Merrill Lynch	1,094
5	Salomon Brothers	1,085
6	Morgan Stanley	594
7	Alex Brown & Sons	550
8	First Boston	410
9	Donaldson, Lufkin & Jenrette	381
10	PaineWebber	363

Illustrations by Patrick McDonnell



Steinberg & Lyman's new issues

An investment of $100 in each of these new issues, since 1985 (total, $1,500), was worth $1,217.18 by year's end.

Company/business	Offer date	Offer price	Offering P/E	Prices as of 9/30/87	Prices as of 11/5/87	Prices as of 12/31/87	Current P/E	Current value of $100 (12/31/87)
Aca Joe Eastern[1]/apparel stores	11/25/85	$6.25	125.0	$0.68	$0.53	$0.28	neg	$4.48
Axlon/toys	8/21/86	9.00	neg	2.38	1.00	0.13	neg	1.44
Cabot Medical/medical products	1/17/86	2.08	13.0	2.31	1.58	2.06	17.2	99.04
Chase Medical/family medical care	7/23/87	5.25	15.0	7.13	4.13	6.00	12.5	114.30
Computer Telephone/telecommunications	5/13/87	5.50	23.9	1.63	1.00	1.88	neg	34.18
Control Resources[2]/air filtration systems	8/1/85	2.50	26.3	14.50	8.25	6.50	neg	260.00
Criticare Systems/medical products	5/22/87	5.25	18.1	9.00	10.00	5.38	16.8	102.49
Eastern Environmental/environmental svcs	8/11/87	8.00	29.6	9.50	5.50	5.00	13.2	62.50
General Sciences/technical development	3/13/86	5.00	35.7	10.00	9.25	11.50	44.2	230.00
Perle Systems/data communications	4/15/85	6.00	14.3	3.50	3.00	2.50	neg	41.68
Pinch or Pound[3]/candy stores	8/7/86	1.67	neg	0.13	NA	NA	NA	0
ProtocomDevices/computer equipment	5/20/86	2.08	neg	0.04	NA	0.25	neg	12.02
Saztec Intl[4]/computer services	11/12/86	3.13	14.9	8.75	7.50	2.50	neg	79.85
Sidari/food processor	3/5/87	1.25	11.4	1.65	1.50	1.50	30.0	120.00
Total Research/market research	3/26/87	1.25	25.0	1.00	0.75	0.69	34.4	55.20

[1]Merged into Aca Joe, 1/16/87. [2]Two-for-one stock split, 4/1/86. [3]Filed for Chapter 11, 8/6/87. [4]Two-for-one stock split, 11/30/87. NA: Not available. neg: No positive earnings.

The best performers of 1987

Below, the 15 best-performing new issues of 1987 and the 15 worst, based on actual performance through Dec. 31. We have not counted issues that raised less than $5 million when they were brought public.

Company/business	Offer price*	Recent price	Offer value (mil)	Offer date	% gain actual	% gain relative to S&P 500	Underwriters
Quadrax/fiber composites	$1.67	$2.75	$5.0	7/7/87	64.7%	104.9%	DH Blair
Fastenal/fasteners	9.00	14.75	9.0	8/20/87	63.9	122.1	Robert W Baird
Calgon Carbon/activated carbon	22.00	34.50	77.0	6/2/87	56.8	83.1	Shearson Lehman First Boston
Carlton Comm/electronics	16.50	24.50	75.9	1/29/87	48.5	64.8	Shearson Lehman
Intl Telecharge/tel oper assist	8.00	11.88	13.6	6/5/87	48.4	76.3	Morgan Olmstead Kennedy
Topps/chewing gum prods	13.00	19.25	22.1	5/21/87	48.1	67.9	Goldman, Sachs Alex Brown & Sons
Southstate Bank/S&L	11.00	16.25	25.3	4/22/87	47.7	71.7	Self
British Airways/airline	19.07	28.00	120.1	2/11/87	46.8	64.9	Salomon Brothers Goldman, Sachs; Prudential-Bache
Amre/home improvement prods	8.00	11.50	20.8	2/26/87	43.8	64.6	EF Hutton
Cash Amer Investmts/pawnshops	10.00	14.25	14.6	1/29/87	42.5	58.2	Eppler Guerin & Turner
Angio-Medical/pharmaceuticals	6.00	8.50	10.0	4/29/87	41.7	63.2	Keane Securities
Clean Harbors/waste cleanup	9.00	12.75	9.0	11/24/87	41.7	41.3	Robertson Colman Stephens
Fst FSB Marianna FL/S&L	7.50	10.50	5.0	4/15/87	40.0	61.2	Self
Peoples Federal/S&L	10.00	13.75	11.0	7/7/87	37.5	71.1	Self
Specialty Equip/food svc equip	12.00	16.50	31.0	7/2/87	37.5	70.1	First Boston; Bear, Stearns Prudential-Bache

The worst performers of 1987

Company/business	Offer price*	Recent price	Offer value (mil)	Offer date	% loss actual	% loss relative to S&P 500	Underwriters
Fisher Transport/trucking	$6.00	$0.44	$6.6	4/15/87	–92.7%	–91.6%	Laidlaw Adams & Peck
Antonovich Cl A/furs	9.63	1.88	7.2	3/31/87	–80.5	–77.0	Evans
Cleopatra Kohlique/cosmetics	2.50	0.50	7.0	2/11/87	–80.0	–77.5	DH Blair
Bermuda Star Line/cruise line	6.00	1.25	5.8	2/3/87	–79.2	–76.7	Drexel Burnham Lambert
LJ Simone/shoe manufacturer	8.75	2.00	6.3	6/3/87	–77.1	–72.9	Tucker Anthony & RL Day
Rise Technology/elec publish eq	6.00	1.38	6.6	3/31/87	–77.1	–72.9	McKinley Allsopp
Intellicall/telephone equip	14.00	3.25	25.2	8/25/87	–76.8	–68.4	Rauscher Pierce Refsnes
National Imaging/CT scanning equip	5.50	1.38	5.7	5/20/87	–75.0	–71.9	First United Securities
Spectramed/medical products	11.00	2.88	40.0	6/19/87	–73.9	–67.5	Alex Brown & Sons PaineWebber
Alpharel/document imaging sys	11.00	3.00	22.0	6/4/87	–72.7	–67.4	Merrill Lynch
Elexis/electronics	7.00	2.00	7.0	2/27/87	–71.4	–67.1	Advest First Equity Corp of FL
Xeta/telephone acct systems	7.00	2.00	5.6	6/17/87	–71.4	–64.8	Eppler Guerin & Turner
Cognos/computer software	16.00	4.63	27.0	7/1/87	–71.1	–64.6	Alex Brown & Sons Robertson Colman Stephens
Presto Tek/beverage machine design	5.50	1.63	5.5	1/28/87	–70.5	–67.1	McKinley Allsopp
Fashion Channel/jewelry	10.50	3.13	21.0	10/2/87	–70.2	–60.5	RG Dickinson Hanifen Imhoff

*Per common share; adjusted for splits.

Whose new issues did best? The table below ranks the performance of investment bankers by the percentage of their new issues that outperformed the S&P 500. Goldman, Sachs, which raised more new-issues money ($2.43 billion) in 1987 than any other investment banker, also was number one in performance—which isn't saying much, considering that its stocks lost money on an overall basis. Why did Goldman, Sachs lose less than the competition? Better quality, essentially. Top of its list was Topps, the chewing gum company, the $120.1 million British Airways, followed by Conrail's $1.5 billion debut, plus Himont, a polypropylene maker.

The crash, of course, hurt not only a lot of new issues but also several new-issues underwriters. One of the hottest, pre-Black Monday, was Steinberg & Lyman, which left the business after the market collapsed. The hottest new issue on FORBES' tally during the first three quarters of last year was Steinberg & Lyman's Criticare. As of Nov. 5, even after the crash, it was at $10, up 90.5% over its offering price. S&L departed from the brokerage business soon after, and by year-end, Criticare, bereft of strong sponsorship, had fallen close to its original price of $5.25. Is there a lesson here? Should investors have known Criticare was overpriced at $10? You bet.

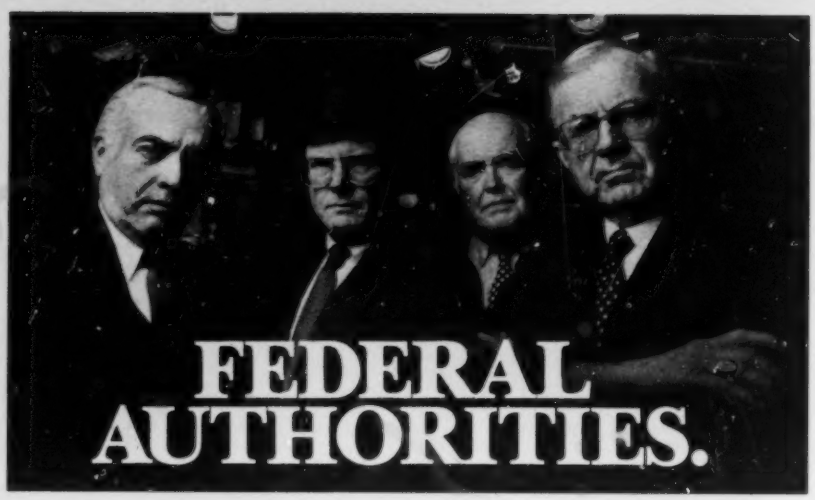
How the investment banks performed

Investment bankers with at least five new issues brought to market in 1987 are ranked by the percentage of their IPOs that outperformed the S&P 500. We include only issues of at least $5 million.

Rank	Underwriter*	Number of issues	—Average performance— actual	—Average performance— relative to S&P 500	—% of issues with gains— actual	—% of issues with gains— relative to S&P 500
1	Goldman, Sachs	21	–12.8%	4.6%	24%	57%
2	Morgan Stanley	11	–23.1	–6.0	9	55
3	Interstate Securities	6	–16.1	0.4	33	50
4	First Boston	14	–7.7	8.9	29	50
5	Montgomery Securities	10	–24.7	–11.9	20	50
6	Alex Brown & Sons	34	–18.1	–2.7	26	47
7	Salomon Brothers	17	–17.4	1.4	18	47
8	Bear, Stearns	11	–19.9	–1.5	27	45
9	Robertson Colman Stephens	11	–20.6	–6.2	18	45
10	William Blair	7	–22.8	–5.0	29	43
11	Dean Witter Reynolds	8	–25.8	–11.1	13	38
12	Shearson Lehman	30	–27.9	–13.2	10	37
13	Advest	11	–30.6	–15.4	18	36
14	Smith Barney	14	–32.0	–17.6	7	36
15	EF Hutton	12	–22.7	–8.4	17	33
16	Robinson-Humphrey†	12	–28.9	–15.3	17	33
17	Blunt Ellis & Loewi	6	–28.7	–13.0	17	33
18	Drexel Burnham Lambert	34	–32.6	–16.8	9	29
19	Prudential-Bache	14	–18.6	–2.3	29	29
20	Hambrecht & Quist	7	–34.7	–21.6	14	29
21	Merrill Lynch	34	–29.2	–13.8	12	26
22	Donaldson, Lufkin & Jenrette	8	–32.5	–18.3	13	25
23	LF Rothschild	9	–33.9	–21.1	0	22
24	PaineWebber	14	–38.7	–26.0	0	21
25	Kidder, Peabody	16	–39.5	–26.6	6	19
26	Boettcher	6	–36.8	–22.0	0	17
27	Cowen	5	–39.9	–27.6	0	0
28	McKinley Allsopp	5	–56.4	–47.5	0	0
29	Rauscher Pierce Refsnes	5	–60.6	–50.2	0	0

*The three lead underwriters on any given issue receive equal credit for that issue in FORBES' rankings. †Division of Shearson Lehman.

Sources: FORBES; Institute for Economic Research; IDD Information Services; Wilshire Associates; Trident Securities; OTC Stock Journal.



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Its price/earnings ratio at that point was a wildly lofty 33.3. Which of course does not even come close to the bloated multiples some new issues achieve.

Among S&L's offerings, Aca Joe Eastern wins some kind of prize. It came out in November 1985 at $6.25, with a P/E of 125. By the end of 1987 it was trading at 28 cents. A $100 investment would have been worth $4.48. Should you be suspicious of another S&L offering, Control Resources? At year-end this company was losing money in its asbestos cleanup business but was trading at $6.50, $4 more than its offering price two years ago. What do you think?

You'd have thought Oct. 19 might have brought a bit more sanity to the market for new issues. It brought some, but plenty of craziness remains. Last year's best-performing new issue, for example, Quadrax, was a company trying to develop a thermoplastic fiber for the aerospace industry. Though there were no earnings and no product to market, its shares were up 64% for the year.

The worst new issue of 1987 was underwritten by Laidlaw Adams & Peck: Fisher Transportation Services, an Arkansas-based trucking company. Its stock price fell almost 93%, from $6 to 44 cents per share after it was discovered that the company had misstated its financials.

Second worst was Antonovich, Inc., a fur retailer that left investors out in the cold when spiraling expansion costs resulted in increased losses. This collapsed the stock price by 80% of the offering. The brothers Antonovich—Daniel and David, chairman and president, respectively—we hasten to add, managed to keep warm amid their company's debacle. They had sold 250,000 shares as part of the offering, reaping a hot $2.2 million.

With news like this, prospects for the new-issues market this year are dismal. Which may be bad news for underwriters but is probably good news for investors, who by and large do badly, whether the new-issues market is going up, down or sideways. ■

tration approval last year to begin human trials of an AIDS vaccine. Ribi ImmunoChem Research of Hamilton, Mont. is conducting clinical trials on a vaccine to treat melanoma, an often fatal form of skin cancer contracted by an estimated 25,000 people last year, killing some 5,800. "By injecting a person with inactivated melanoma cells," says Jon A. Rudbach, the company's vice president of research and development, "they might be able to develop an immune response to allow them to fight the cancer."

At the Immune Response Corp. in La Jolla, Calif., Dr. Jonas Salk, who developed the first polio vaccine, is also working on a treatment for AIDS that might allow a person with the disease to build antibodies to fight it.

And Praxis Biologics of Rochester, N.Y. has even received permission from the FDA to begin human testing of an injectable vaccine against traveler's diarrhea. But don't get your hopes up. The project has been put on a back burner.

But as good as vaccines are getting, none are effective if people don't get them. According to Dr. Walter Williams, a medical epidemiologist with the Centers for Disease Control, a 1985 adult immunization survey found that only 20% of those at greatest risk for flu and pneumococcal pneumonia actually got the vaccine.

With risks few and more insurers willing to reimburse most of the cost of the vaccines, it's irresponsible not to go for as much disease protection as possible. **—Francesca Lunzer**

Sotheby's Art Market Trends

Index sectors	Jan 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years % change	Five years average annual % change
Old Master paintings	373	373	329	290	205	nil	+13.4	+28.6	+82.0	+12.7
19th-century European paintings	323	323	279	249	184	nil	+15.8	+29.7	+75.5	+11.9
Impressionist & Post-impressionist art	723	723	490	380	267	nil	+47.6	+90.3	+170.8	+22.0
Modern paintings (1900-1950)	757	757	512	364	245	nil	+47.9	+108.0	+209.0	+25.3
Contemporary art (1945 onward)	609	609	551	497	342	nil	+10.5	+22.5	+78.1	+12.2
American paintings (1800-pre-WWII)	871	871	698	667	450	nil	+24.8	+30.6	+93.6	+14.1
Continental ceramics	331	331	290	284	266	nil	+14.1	+16.5	+24.4	+ 4.5
Chinese ceramics	581	581	526	486	436	nil	+10.5	+19.5	+33.3	+ 5.9
English silver	381	381	343	306	209	nil	+11.1	+24.5	+82.3	+12.8
Continental silver	220	220	201	181	139	nil	+ 9.5	+21.5	+58.3	+ 9.6
American furniture	469	459	451	330	213	+2.2	+ 4.0	+42.1	+120.2	+17.1
French & Continental furniture	319	319	299	273	234	nil	+ 6.7	+16.8	+36.3	+ 6.4
English furniture	657	634	517	419	267	+3.6	+27.1	+56.8	+146.1	+19.7
Aggregate index*	514	512	407	344	253	+0.4	+26.3	+49.4	+103.2	+15.2

Basis: 1975 = 100 ($).

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*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Monthly highlights

Art market activity in January centered in New York with auctions of English furniture, Old Master drawings, Old Master paintings and Americana. The major series of sales of American folk art, silver, furniture, and decorations, paintings and prints—Americana—held at the same time as the New York Winter Antiques Show, attracted crowds of collectors. The results showed a record for a single session of folk art as well as a folk art painting when $852,500 was paid for a double portrait of a Connecticut merchant and his daughter by John Brewster, Jr.

Sales of Chinese Export porcelain proved extremely successful. American private collectors secured the top pieces, including the highest-priced lot, an 18th-century Armorial charger at $132,000, a record for Chinese Export porcelain sold in America.

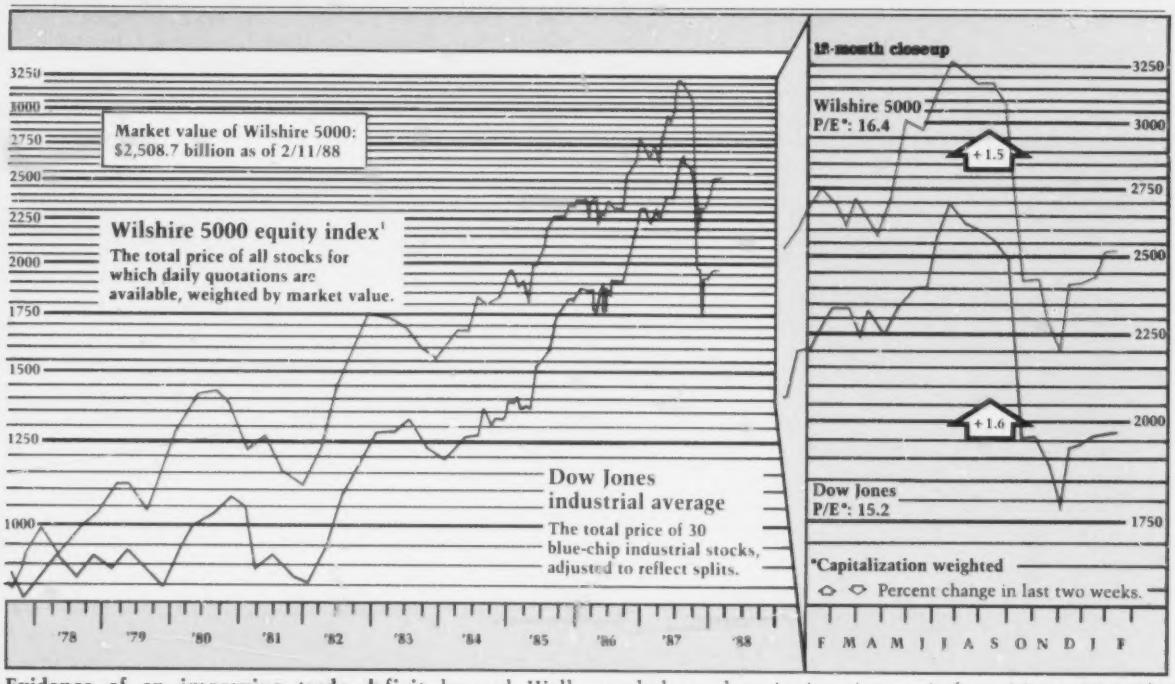
Index highlights

Old Master paintings sales achieved several record prices. Highlights included $6.6 million for a still life by the 17th-century Dutch artist Jan Davidsz. de Heem. But the sales also revealed the market to be more selective this year. Buyers were prepared to pay high prices for first-rate Old Master paintings in good condition that had not been seen on the market for some time, but there was some resistance to other works. Strong private buying counterbalanced weaker demand from dealers.

A slight trend surfaced in the English furniture sales, with buyers gravitating toward more conservative examples, such as walnut and mahogany pieces from the mid-Georgian period. Prices leveled somewhat for fashionable, highly decorative items, compared with the high sums seen last year.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $2,508.7 billion as of 2/11/88
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
3250
3000
2750
2500
2250
2000
1750
1500
1250
1000
'78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88
12-month closeup
Wilshire 5000 P/E*: 16.4
+1.5
+1.6
Dow Jones P/E*: 15.2
*Capitalization weighted
Percent change in last two weeks.
F M A M J J A S O N D J F

Evidence of an improving trade deficit buoyed Wall Street over the last two weeks. On Feb. 12 the Commerce Department reported that the December merchandise trade deficit fell to $12.2 billion. Helping to close the trade gap were record U.S. exports and shrinking imports from OPEC.

There was other encouraging news—good earnings. While the Wilshire index of 5,700 issues rose 1.5% over the last ten trading days, earnings gains were sufficient to push down the price/earnings ratio from 16.5 to 16.4. The Forbes Sales 500, an index of the 500 largest U.S. corporations, climbed 1.1% while the P/E on this indicator also declined slightly. Whatever caused the October crash, it probably wasn't earnings declines. And the Institutional Brokers Estimate System reports that investment strategists (analysts who make broad predictions about the economy) are now expressing a little more optimism about corporate earnings in 1988.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.5	4.4	2.4	4.4	4.0	5.0
in last 52 weeks	–9.3	–7.8	–9.4	–8.6	–12.7	–14.2

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	5.8	8.4	11.0	5.8	4.9	7.4	6.1	8.9	11.4	6.7	5.9	7.3
in last 52 weeks	–5.9	9.6	11.3	5.4	–12.1	–8.6	–5.4	16.2	13.5	–2.6	–4.3	7.0

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/11/88. Prepared by Wilshire Associates, Santa Monica, Calif.

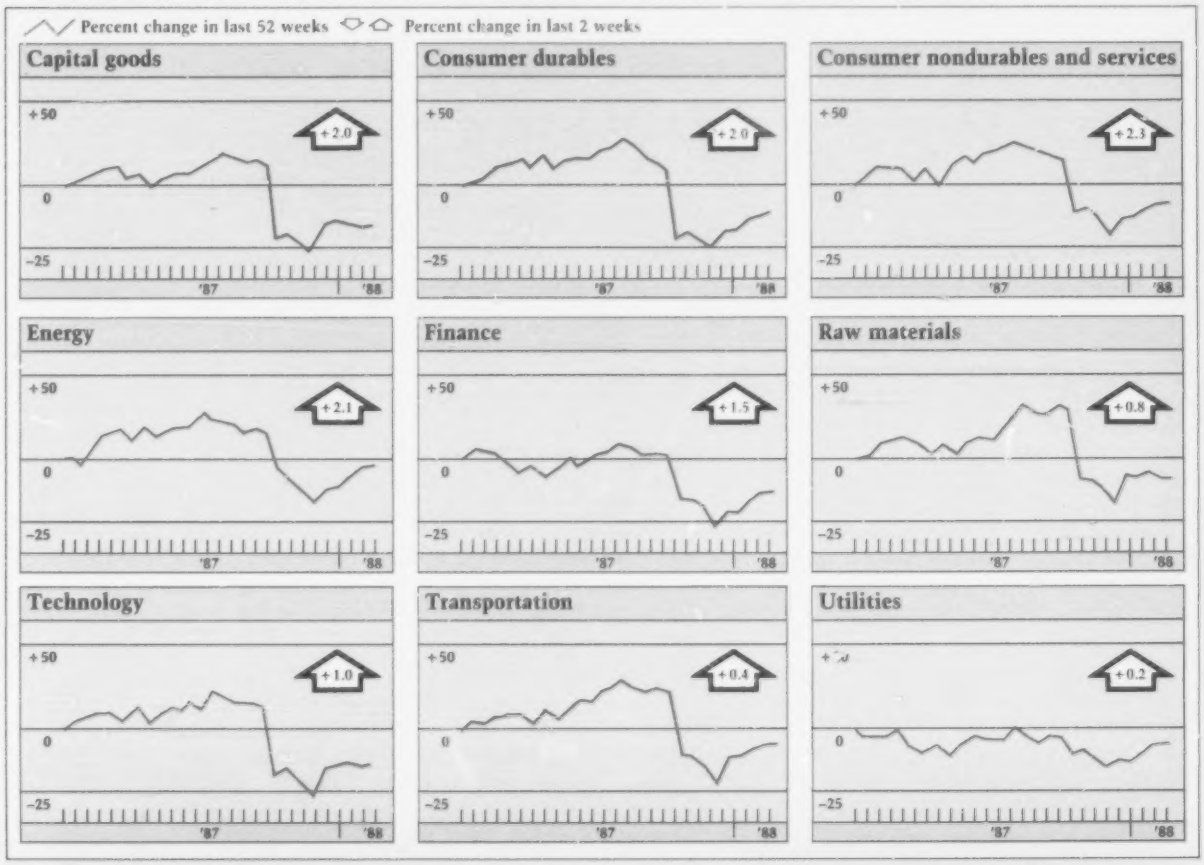
Gus French

Where the Action Is

Recession wasn't in Wall Street's vocabulary as investors pushed up consumer, raw materials and energy stocks during the last two weeks. The best gain was posted by the consumer nondurables sector, which rose 2.3%. The hottest stocks in this group were Wendy's International, Nike and Zayre.

Bruno's, which recently reported a 40% increase in its second-quarter earnings, was up 21%. Stop & Shop Cos., which is being sought by the Haft family, gained 17.5%. Leading the consumer durables sector was Firestone Tire & Rubber, which scored a 17.5% gain.

After a sharp rise in January, utility stocks inched up 0.2%. But Metro Mobile CTS jumped sharply again, along with other cellular communication stocks.



What the Analysts Think

A brightening trade balance prompted security analysts to make minor upward adjustments in their 1988 estimates for the raw materials and consumer durables sectors. Among the issues with higher forecasts: Armtek, First Mississippi, Fluor, General Motors, Honda, Inco, Inland Steel, International Aluminum, Laclede Steel and LTV.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.40	15.6
1988 estimates	3.54	10.6
1989 estimates	4.13	9.8

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Raw materials	$2.87	11.0	0.70%	1.07%
2	Consumer durables	3.84	12.2	0.10	2.42
3	Utilities	3.04	10.0	-0.06	-0.41
4	Capital goods	2.53	13.9	-0.10	0.86
5	Consumer nondurables	2.56	12.6	-0.12	-0.78
6	Finance	3.61	7.4	-0.41	-1.91
7	Transportation	2.48	11.4	-0.59	-0.47
8	Energy	2.80	12.7	-0.66	-1.45
9	Technology	2.92	11.2	-0.74	-1.13

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 2/11/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

PENSION FUND MANAGERS took a shellacking in the fall, just like the rest of us. But say this for the pros: They didn't panic the way small investors did. In the final quarter of last year, institutions did more stock buying than selling *(see table at right, "Segment performance and cash flows")*. Contrast that with the huge increase in mutual fund redemptions that followed the crash.

The percentage of institutional portfolios invested in equity as of the end of the third quarter of 1987, 62.7%, was at a five-year high. Yet this warning sign was largely ignored. "A 30% return in the equity market tends to draw flies. It appeared that we were in one of the great bull markets of all time," remarks Dale Stevens, a vice president at Santa Monica, Calif.-based Wilshire Associates. Wilshire's Trust Universe Comparison Service keeps tabs on about 20% of U.S. pension money.

True, as the section at right indicates, professional investors increased their cash holdings by 11.4% in the last quarter of 1987 and by 52.9% for all of 1987. "But," says Stevens, "there were still plenty of them at the party when the cops got there."

The best managers during the fourth quarter, it seems, were the market timers, who turned in an average 19.2% loss. But that wasn't much better than the 23.1% loss on the Wilshire 5000. The timers, moreover, even if they were all just making wild guesses, would presumably have entered the crash with a higher cash position as a group than managers following other styles. The group's average return, then, doesn't say much for the idea of timing.

At year's end, institutions had 10.4% of their portfolios in cash. Fixed-income securities rose from a 26.5% weighting Sept. 30 to 31.7% Dec. 31. On balance, the money men were in fact liquidating bond holdings, as the –2.3% figure under "Segment performance/shift in holdings" shows. The increased weighting for bonds, in other words, merely reflects the resurgence of bond prices and the collapse of stock prices. Similarly, equity dropped sharply, to 56.7% of the typical portfolio *(see top box)*.

The worst investments in the quarter were stocks and convertibles, with total returns of –23.5% and –17.3%, respectively. But there were ways to make money in the fourth quarter. The total return from fixed-income investments was 5.2%, about half from appreciation resulting from declining interest rates.

How different managers performed

Manager style	Total return[3] recent quarter	12 months	24 months[4]
Diversified	–21.1%	4.1%	10.9%
Growth	–22.4	5.7	10.8
Growth—emerging	–22.6	1.1	5.7
Market timer	–19.2	4.0	11.4
Sector rotator	–20.0	4.6	10.2
Value	–22.1	0.9	9.7

Where the institutions put their money

Segment	—Portfolio weighting— most recent quarter	previous quarter
Equity	56.7%	62.7%
Fixed income	31.7	26.5
Cash and equivalents	10.4	9.6
Convertibles	0.8	0.8
Other[1]	0.4	0.4

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	14.6	13.5
Dividend yield	3.3 %	3.5 %
Beta[2]	1.07	1.06
Price/sales	1.08	1.05
Price/book	2.55	2.40

Segment performance and cash flows

Segment	—Most recent quarter— median total return	shift in institutional holdings	——Latest 12 months—— median total return	shift in institutional holdings
Equity	–23.5%	0.9%	2.9%	–3.6%
Fixed income	5.2	–2.3	2.5	–10.2
Cash equiv	1.8	11.4	6.9	52.9
Convertibles	–17.3	–1.0	–2.9	0.3
Other[1]	1.5	–3.2	5.5	–6.4
Total	–11.2	–1.9	4.1	–6.3

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
Eastman Kodak	2.7%	–27.2%	Squibb	–2.8%	–38.7%
Cray Research	2.7	–23.8	Ford Motor	–2.4	–22.0
Tele-Commun	2.2	–9.6	Merck & Co	–2.0	–23.0
Farmers Group	2.2	–16.0	Digital Equip	–1.9	–28.9
Burlington Nthrn	2.2	–19.1	Coca-Cola	–1.8	–20.6
Texas Instr	2.0	–25.2	BellSouth	–1.7	–12.5
General Re	2.0	–5.0	IBM	–1.7	–22.7
Alcan Aluminium	1.8	–24.6	EI du Pont	–1.6	–26.0
Deere & Co	1.8	–10.6	Limited	–1.6	–51.9
Alcoa	1.8	–23.6	Procter & Gamble	–1.5	–14.5

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P 500. [3]Includes all forms of investments. [4]Figures for 24 months are annualized.
Note: Data for quarter ending 12/31/87. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Where the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
Security	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
Digital Equipment	1.3%	0.8%	IBM	2.0%	4.3%
Apple Computer	0.5	0.2	Exxon	1.0	3.0
Alcoa	0.5	0.2	Matsushita Electric ADR	0.0	1.3
Intel	0.5	0.1	Hitachi ADR	0.0	1.1
Philip Morris	1.3	1.0	General Electric	1.3	2.3
Caterpillar	0.5	0.2	British Petroleum ADS	0.2	1.2
Tele-Communications	0.4	0.1	AT&T	0.6	1.6
Cray Research	0.5	0.1	Royal Dutch Petroleum	0.6	1.5
K mart	0.6	0.3	BellSouth	0.3	1.1
Texas Instruments	0.4	0.2	Glaxo Holdings ADR	0.0	0.7

Market pros have been grabbing shares of Kodak and Cray Research. Both are old-time institutional favorites that turned into seeming bargains after the crash. Kodak got as low as 41⅞, off 41% from its early October high. Cray just reported an 18% earnings gain for 1987 and was recently available for 75⅞, a 44% discount from its high.

Cable operator Tele-Communications has been accumulating pension portfolios, as have Farmers Group and Burlington Northern, which are, respectively, actual and potential takeover targets.

Sector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

Capital goods	5.3% 6.3%	Consumer durables	4.1% 4.2%	Consumer nondurables	27.9% 28.8%
	total return		total return		total return
General Electric	–27.7%	General Motors	–24.5%	Philip Morris	–27.5%
Caterpillar	–15.4	Ford Motor	–22.0	Merck	–23.0
Emerson Electric	–13.8	Chrysler	–45.9	Eastman Kodak	–27.2
Westinghouse Electric	–31.5	Goodyear Tire & Rubber	–15.5	Sears, Roebuck	–34.5
Deere & Co	[illegible]	Whirlpool	–32.1	Wal-Mart Stores	–31.3
Energy	**7.4% 7.8%**	**Finance**	**14.3% 11.8%**	**Raw materials**	**14.6% 15.6%**
	total return		total return		total return
Exxon	–20.7%	American Express	–35.9%	Dow Chemical	–14.3%
Atlantic Richfield	–25.8	General Re	–5.0	Waste Management	–18.9
Mobil	–19.2	Citicorp	–33.9	El du Pont de Nemours	–26.0
Amoco	–14.5	AIG	–24.8	Minnesota Mining & Mfg	–20.7
Chevron	–25.4	Loews	–29.8	Alcoa	–23.6
Technology	**15.7% 13.1%**	**Transportation**	**3.9% 4.1%**	**Utilities**	**6.8% 6.4%**
	total return		total return		total return
IBM	–22.7%	Norfolk Southern	–23.0%	AT&T	–19.1%
Digital Equipment	–28.9	Burlington Northern	–19.1	Pacific Telesis Group	–16.5
Hewlett-Packard	–17.3	Union Pacific	–32.0	Nynex	–15.1
Motorola	–28.6	CSX	–24.4	Southwestern Bell	–20.6
Apple Computer	–25.5	Santa Fe Southern Pacific	–27.4	GTE	–13.2

As a vehicle for diversifying, global bond funds make some sense. But don't buy just because they were up a lot last year.

Bond voyage

By John Heins

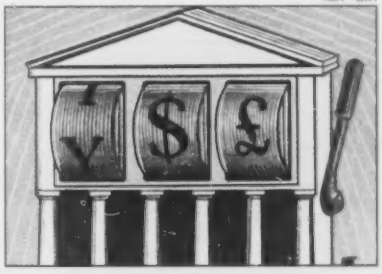
THE PAST 12 MONTHS were good to mutual funds investing in foreign fixed-income securities. The yen's and mark's rise of 20% and 7%, respectively, against the dollar made international bond fund managers look smart. T. Rowe Price International Bond Fund, for example, delivered a total return (interest plus capital gains and losses) of 18.5% in the 12 months ended Jan. 28. Domestic bond funds were lucky to return 5%.

The October crash also helped, pushing up bond prices worldwide as burned stock buyers looked for a safe harbor. For all of 1987, open-end global bond funds tracked by Lipper Analytical Services were up nearly 21%, bested only by gold funds and option growth funds.

As you might expect, investors are rushing in, and fund sponsors are rushing to sell to them. The number of foreign bond funds more than tripled last year, to 25, while fund assets rose four times, to $2.4 billion. A backlog of registrations for new, similar funds has piled up at the Securities & Exchange Commission.

So why is Alan Brown, manager of the Shearson Lehman Global Bond Portfolio fund, complaining? "What concerns me is that people are investing with us for the wrong reason, just as a short-term play on the dollar's going down," Brown says. "The more prudent long-term argument is that you shouldn't keep all your eggs in one basket."

Marc Tuffet



Playing world bond markets

Avoiding U.S.-dollar bonds paid off for global bond fund managers as the dollar fell. Below, the largest funds, with managers' current bets against the dollar.

Fund	Total return (latest 12 months)	Non-U.S. holdings[1] (% of portfolio)	Maximum load
T. Rowe Price International Bond	18.5%	76%	none
PaineWebber Master Global Income	17.2[2]	90	5.00%[3]
Mass. Financial Intl Trust-Bond	15.1	75	7.25
Merrill Lynch Global	14.2	93	4.00[3]
Intl Cash-Global Cash	14.2	75	1.25
Shearson Lehman Global Bond	13.3	25	5.00[3]
Fidelity Global Bond	11.8	71	none
Templeton Income[4]	4.9	43	8.50
Salomon Brothers World Govt Bond Index	14.3		

[1]Net foreign currency assets, after hedging. [2]Started operation 3/27/87. [3]Back-end load. [4]Balanced fund.

Sources: Lipper Analytical Services, Salomon Brothers, funds.

Brown makes a good point. U.S. issues make up roughly half of the better than $7 trillion worldwide debt market. Foreign bonds obviously won't always outperform U.S. bonds or always benefit from a falling dollar, but they will often move in different directions and with different magnitudes. In theory, then, it should be possible to create an internationally diversified basket of bonds that offers as much in expected returns as a fairly aggressive U.S.-only portfolio, but with slightly less volatility.

Last year the total return on U.S. government bonds was 1.9%. Without currency gains, Australian bonds returned 18.8%, British bonds 15.5%. In U.S. dollar terms, the gains were much higher. There will be years when foreign bonds perform terribly for U.S. investors, of course, but international diversification should deliver a better reward-to-risk ratio over the long pull. "Not looking at foreign bond markets is like only buying stocks with ticker symbols from A to K and ignoring everything else," says Brown. He says a U.S. investor should put about 25% of his total fixed-income holdings in foreign bonds.

Most foreign bond funds are so-called global funds, which invest in the U.S. as well as in foreign markets. But beyond that, the funds are often structured differently. The Templeton Income Fund, for example, competes for the same customers but is better described as a balanced fund. It puts a third of its assets in equities. Huntington Advisers' International Cash funds invest only in money market instruments and offer both diversified and single-currency portfolios.

Current market theories also differ. Edward Taber, portfolio manager of T. Rowe Price's International Bond Fund, and Nimrod Fachler, who runs the PaineWebber Master Global Income Fund, are U.S. dollar bears. Taber likes British and Dutch bonds. Fachler likes Australian bonds, which delivered a 29% total return to U.S. investors last year.

James Hocking, who runs Templeton Income Fund, disagrees. He has 55% of his bond holdings

in the U.S., betting that a slower economy will lead to a further fall in U.S. interest rates. Brown of Shearson is even more bullish on the U.S. dollar, with some 75% of his portfolio either in dollar securities or in foreign securities with offsetting currency hedges.

As with U.S. bond funds, investors need be wary of yield figures, since these can be made artificially high at the expense of the investor's capital. Taber's fund, for instance, has been buying U.S. Treasurys with coupons of around 15% that mature in one to two years. Since these don't have a better yield to maturity than other short-term Treasurys, the high coupon is offset by a loss of principal.

What's the right number to look at? Total return? This is a better measure of performance, but even it can be misleading. Most of the performance for a global bond fund over a short period is due to currency fluctuations. A terrific 12-month total return may show nothing more than that the dollar was weak last year.

"Look, the dollar has been generally weak," says Fachler of PaineWebber. "The trick will be how to [make excellent returns] when the dollar is relatively strong." The investor, then, is wise to look at total return, but only alongside the performance of the dollar over the same period.

What else? Fees. Sales loads and/or annual expenses on foreign bond funds can be very high. Many of the biggest funds—T. Rowe Price's and Fidelity's are notable exceptions—have front- or back-end loads and have annual expense ratios of as high as 2% of net assets. Huntington Advisers' Global Cash fund charges a 1.25% sales charge and has a more than 1.5% annual expense ratio—all for a fund currently yielding about 4%.

Liquidity can be a problem, although not with government issues from the bigger markets of Japan, Britain and West Germany. In November Fachler of PaineWebber had to buy $40 million worth of Spanish treasury bills almost entirely at auction, because the secondary market was so thin. It turned out to be an excellent investment, but had the market turned sharply against him, or if he had had to sell the bills because of heavy redemptions by fund holders, Fachler says, it would have been hard to get a decent price.

Liquidity, of course, would be all the greater a problem for individuals buying foreign bonds directly. So would foreign withholding taxes, which funds often circumvent by selling—with the agreement to buy back later—just before a coupon is paid. ■

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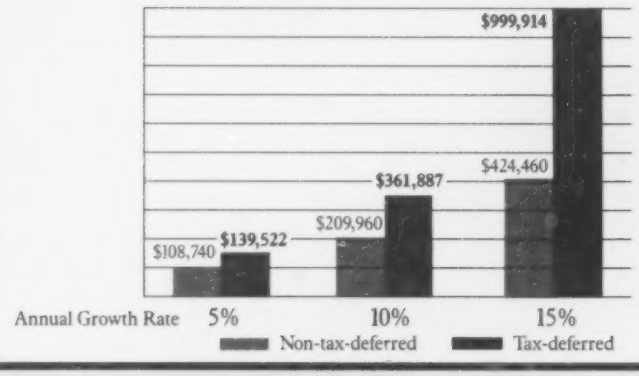

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